



**CITY OF GREENWOOD, MISSOURI
YEAR ENDED JUNE 30, 2002**

**From The Office Of State Auditor
Claire McCaskill**

**Report No. 2003-114
December 4, 2003
www.auditor.mo.gov**

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

December 2003

The following problems were discovered as a result of an audit conducted by our office of the City of Greenwood, Missouri.

The City of Greenwood is in poor financial condition as a result of inadequate oversight and monitoring of fund balances, improper budgeting practices, and improper uses of restricted revenues. The cash balance has been declining for years and at June 30, 2003, the city's General Fund cash balance was \$(50,006). While budgets are prepared, they are not used to monitor the city's financial position and periodic comparisons of budgeted and actual receipts and disbursements are not performed. Increases in General Fund receipts have not kept up with the increases in disbursements the past several years. During the fiscal years ended June 30, 2002 and 2001, the city's disbursements exceeded receipts by \$298,430 and \$202,600, respectively. The board must continue to monitor the financial condition of the city and develop a long-range plan which will allow the city to reduce its disbursements and/or increase receipts to operate the city within its available resources.

The city accounts for all general and operating expenses from one bank account, which combines the General Fund, Sewer Fund, Park Fund, Street Fund, Fire and Ambulance Fund, and Hydrant Fund. It appears the city is using some of these restricted funds to pay for general operating expenses of the city.

In four of the past six years the city has paid more for the processing of the sewerage than it collected from customers. In addition to paying for processing and collection, the city incurs charges for salaries, repairs and maintenance, and administration which must be paid from the proceeds of the Sewer Fund. According to the audited financial statements, the Sewer Fund had a loss of (\$53,352) in fiscal year 2002, before any transfers in.

The reserves of the Sewer Fund have been depleted over the past several years paying for repairs and maintenance of the system, as well as bond principal and interest payments. The Sewer Fund borrowed \$113,193 in fiscal year 2002. While the city raised the sewer rates in March 2003 to \$37 per connection, the amount borrowed has not been repaid as of June 30, 2003, per the city clerk. In addition, the city has not established an Operation, Maintenance and Replacement Account, as required by city ordinance.

The city has not adequately segregated duties of city personnel and does not provide adequate oversight of work performed. Improvement is needed in the controls over cash handling and access to computer programs and data files is not adequately restricted. In addition, property tax revenues are not allocated to the various funds appropriately, and some motor vehicle-related revenues were deposited to the General Fund instead of the Street Fund.

(over)

YELLOW SHEET

The city's budgets need improvement and are not prepared in accordance with state law. While deficit budgets were approved for the General Fund and the Sewer Fund in fiscal year 2003, such deficits were caused by the city failing to include the beginning fund balance with the anticipated revenues for comparison to estimated expenditures. Additionally, some funds are not properly budgeted, and the board of alderman, not the park board, prepares budgets for the operations of the municipal parks.

Park funds totaling \$125,698 were transferred to the General Fund without the approval of the Park Board. The city's attorney provided a written opinion that the city could transfer monies from the restricted fund because the money originally came from the General Fund and the Park Board is only an advisory board. Per a review of the ordinance establishing the Park Board, it appears this board is an administrative board, with exclusive control of the expenditures of all money collected to the credit of the Park Fund. Because these funds were transferred without the approval of the Park Board and were previously received by the Park Fund, it appears questionable that the Board of Alderman had the authority to transfer these funds.

A formal bidding policy was not adopted until November 2002, expenditures requiring advance board approval were not always approved, and several expenditures did not appear to be prudent uses of public funds. In addition, supporting documentation was not available for some expenditures and the city financed several loans for periods of more than 12 months without a vote of the people.

The Board of Aldermen apparently violated city ordinance by investing \$11,000 with a local investment firm, who employed one of the former aldermen. While the board minutes indicate that he voted for investing funds with this firm, the monthly investment reports for June 2001 through December 2001 listed the former alderman as the representative for this account.

The audit also includes some matters related to the municipal court, board meetings, minutes and ordinances, planning and zoning, street maintenance, and fixed assets upon which the city should consider and take appropriate corrective action.

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CITY OF GREENWOOD, MISSOURI

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Mayor
and
Board of Alderman
City of Greenwood, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Greenwood, Missouri. The city had engaged Troutt Beeman & Co. PC., Certified Public Accountants (CPAs), to audit the city for the year ended June 30, 2002. To minimize any duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit of the city included, but was not necessarily limited to, the year ended June 30, 2002. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review compliance with certain legal provisions.
3. Review certain management practices.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents and interviewed various personnel of the city.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the city's management and was not subjected to the procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings arising from our audit of the City of Greenwood, Missouri.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill
State Auditor

June 5, 2003 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
Audit Manager:	Todd M. Schuler, CPA
In-Charge Auditor:	Cynthia L. Freeman

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

CITY OF GREENWOOD, MISSOURI
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1.	Financial Condition
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The city of Greenwood is in poor financial condition as a result of inadequate oversight and monitoring of fund balances, improper budgeting practices, and improper uses of restricted revenues.

The cash balance of the General Fund has been declining for the past several years.

General Fund Cash Balance For Five Years Ended June 30				
1999	2000	2001	2002	2003
\$227,255	\$ 343,955	\$ 141,355	\$ (157,075)	\$ (50,006)

The city accounts for all general and operating expenses from one bank account, which combines the General Fund, Sewer Fund, Park Fund, Street Fund, Fire and Ambulance Fund, and Hydrant Fund. Receipts for each fund, except the General Fund, are restricted for specified purposes. It appears the city is using some of these restricted funds to pay for general operating expenses of the city.

The city prepares annual budgets. However, these budgets are not used to monitor the city's financial position and the Board of Alderman has not periodically compared budgeted and actual receipts and disbursements. Actual disbursements exceeded budgeted amounts in the General Fund during the years ended June 30, 2002 and 2001, by \$50,000 and \$125,000, respectively. Additionally, actual receipts were less than budgeted amounts for the General Fund during the same period by \$200,000 and \$75,000, respectively. By spending more than budgeted and bringing in less receipts than expected, the city's cash balance in the General Fund steadily declined.

The General Fund operating expenses of the city increased significantly over the past few years, with the most significant increases attributable to the Police Department and Public Works Department. Increases in General Fund receipts have not kept up with the increases in disbursements as follows:

Fiscal Year Ended June 30	Receipts	Disbursements	Receipts Over (Under) Disbursements
1999	\$ 794,715	813,880	(19,165)
2000	1,084,461	967,761	116,700
2001	836,014	1,038,614	(202,600)
2002	1,000,020	1,298,450	(298,430)

In June 2003, the city eliminated the municipal coordinator position and the city engineer position, which has saved a significant amount in reduced salaries (approximately \$120,000 annual savings). While this action will not totally eliminate the operating deficit by the end of the current fiscal year, it will significantly improve the financial condition of the city. The board must continue to monitor the financial condition of the city and develop a long-range plan which will allow the city to reduce its disbursements and/or increase receipts to operate the city within its available resources. The city attempted to pass a property tax for law enforcement in April 2003, but this tax was rejected by voters. Additionally, the board needs to segregate the sewer, park, street, fire and ambulance, and hydrant funds and ensure that these revenues are only used to pay expenditures for providing these services. The recommendations contained in the remaining MARs, if implemented, will help the city establish procedures to operate within its available resources.

WE RECOMMEND the Board of Alderman develop a long-term plan to operate within its available resources. In addition, the board must closely monitor the financial condition of the city by preparing a detailed operating budget and periodically comparing budgeted and actual receipts and disbursements.

AUDITEE'S RESPONSE

We agree with the recommendation presented by the State Auditor and will continue to review the financial condition of the city. We have already taken some steps toward resolving the issues mentioned here and will continue to take steps to alleviate these issues.

2. Sewer Fund

The city's Sewer Fund is not generating sufficient revenues to operate the system and is in non-compliance with the city's ordinance.

- A. Prior to March 2003, the city's sewer user fee was not sufficient to cover operational costs and meet ordinance requirements for funding a replacement account. The city increased its sewer fee from \$24 to \$37 per customer in March 2003, based on a rate study prepared by the city engineer. This was the first rate study performed in the past several years, although city ordinance requires an annual rate study be performed.

The city contracts with Little Blue Sewer District to provide sewer system services and with Public Water Supply District #12 to bill and collect the sewer user fees. The city has paid more for the operation of its sewer system than it has charged its customers. The chart below shows the monthly per connection user fee and the per connection cost charged by Little Blue and District #12.

Year	City User Fee	Total Charged for Sewer Services and Billing & Collection	Difference
97-98	\$ 20.00	\$ 21.75	\$ (1.75)
98-99	20.00	22.75	(2.75)
99-00	24.00	22.75	1.25
00-01	24.00	22.75	1.25
01-02	24.00	24.75	(.75)
02-03	24.00	24.75	(.75)

As indicated above, in four of the past six years the city has paid more for the processing of the sewerage than it collected from customers. In addition to paying for processing and collection, the city incurs charges for salaries, repairs and maintenance, and administration which must be paid from the proceeds of the Sewer Fund. According to the audited financial statements, the Sewer Fund had a loss of (\$53,352) on operations (including interest transactions) in fiscal year 2002, but before any transfers in.

The reserves of the Sewer Fund have been depleted over the past several years paying for repairs and maintenance of the system, as well as bond principal and interest payments. The Sewer Fund borrowed a total of \$113,193 in fiscal year 2002: \$105,459 from the General Fund; \$7,675 from the Fire and Ambulance Fund; \$59 from the Hydrant Fund; to cover the cost of operations. Per city ordinance, any monies borrowed by the Sewer Fund must be repaid in the subsequent fiscal year. While the city raised the sewer rates in March 2003 to \$37 per connection, the amount borrowed from the above mentioned funds has not been repaid as of June 30, 2003, per the city clerk.

As shown below, the cost of operating the sewer system has exceeded revenues in three of the last four years.

Fiscal Year Ended June 30	Revenues	Expenditures	Revenues Over (Under) Expenditures
1999	\$ 459,589	517,381	(57,792)
2000	541,451	460,636	80,815
2001	482,450	592,704	(110,254)
2002	509,924	563,276	(53,352)

To ensure the rate assessed generates sufficient revenues to operate the system and provide for adequate reserves as required, the board needs to ensure that annual rate studies are performed and the rate is adjusted accordingly.

- B. The city has not established an Operation, Maintenance and Replacement Account as required by the city's ordinances. The Operation, Maintenance and Replacement Account does not have a specific funding requirement, but is

required to ensure sufficient reserves exist to fund major repairs, system upgrades, and system replacement. The board needs to determine the funding requirements for this fund and consider revising its ordinances to document this amount.

The failure of the city to adequately maintain and fund this account could leave the city without funds to pay for a major repair.

WE RECOMMEND the Board of Aldermen:

- A. Ensure the sewer rate charged to customers is sufficient to pay the cost of operations, principal and interest on the bonds outstanding, and fund the required reserve accounts. In addition, the board needs to ensure an annual rate study is performed.
- B. Ensure compliance with city ordinance by establishing and funding an Operation, Maintenance and Replacement Account.

AUDITEE'S RESPONSE

- A. *We agree and will continue to monitor the Sewer Fund and regularly review the sewer rate.*
- B. *We will work to establish and fund this account, with forward progress by April 1, 2004.*

3. Accounting Controls and Procedures
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The city has not adequately segregated duties of city personnel and does not provide adequate oversight of work performed. Improvement is needed in the controls over cash handling and access to computer programs and data files is not adequately restricted. In addition, property tax revenues are not allocated to the various funds appropriately, and some motor vehicle-related revenues were deposited to the General Fund instead of the Street Fund.

- A. The City Clerk serves as the City Treasurer, and is responsible for most of the record keeping duties of the city, which include preparing invoices for payment, preparing and signing checks, performing bank reconciliations, and preparing financial reports. The City Clerk also serves as a deputy to the City Collector, who is responsible for receiving and depositing monies. Neither the board nor other personnel independent of the cash custody and the record-keeping functions provide adequate supervision or review of the work performed by the City Clerk or the City Collector.

Attorney General's Opinion No. 24, 1955 to Dodds, concluded that in a fourth-class city the holding of the positions of City Clerk, City Treasurer, and City Collector, or any two of these three offices, by the same person at the same time

would be incompatible. This situation does not allow the segregation of duties necessary for a proper evaluation and review of financial transactions. The current procedures jeopardize the system of independent checks and balances intended by state law. If the duties cannot be adequately segregated, the board should ensure an independent review of the functions performed by the City Clerk and City Collector is performed on a periodic basis.

- B. The City Collector does not always issue receipts for monies received, does not always issue receipt slips in numerical sequence and does not always record the method of payment on all receipt slips issued. The Collector used rediform receipt slips, which were not specifically printed for the city and were not always issued in numerical sequence. In addition, some voided receipt slips were not maintained and the composition of receipt slips issued is not reconciled to deposits.

To properly account for all receipts and ensure they are properly deposited, official prenumbered receipt slips should be issued for all monies received, and the numerical sequence accounted for properly. The method of payment should be indicated on all receipt slips and the composition of receipt slips issued should be reconciled to deposits. In addition, to ensure that all receipts slips are properly accounted for, all voided receipt slips should be properly defaced and maintained.

- C. Receipts are not always deposited intact on a timely basis, nor are checks and money orders always restrictively endorsed when received. Deposits are made approximately two or three times weekly, but it appears in some instances that receipts were held for more than three days prior to being deposited. In one instance, a cashier's check for approximately \$108,000 was held for almost 30 days before being deposited. The city received these monies from cashing a certificate of deposit which had matured, but had not determined how to reinvest these monies at the time the certificate of deposit was cashed.

To adequately safeguard receipts and reduce the risk of loss, or misuse of funds, deposits should be made on a daily basis or when accumulated receipts exceed \$100 and all checks and money orders should be restrictively endorsed immediately upon receipt.

- D. The Police Chief maintains a separate checking account, for the depositing and expending of grant funds, that only he and another police officer are authorized signors. The grantor indicated these monies should be placed in a separate bank account and the Police Chief determined that he should maintain control of these monies. By ordinance, the Mayor, President of the board, and City Clerk are the only authorized signors on the city's accounts, therefore the account should have been placed under the control of the city and not the police department personnel.

In addition, it was discovered that the Police Chief and another police officer were the only signors on a lock box paid for by the city, but the Board of Aldermen were unable to determine who authorized this lock box. The lock box contained

\$469 in cash from a 1997 drug seizure, but was not listed on any city records. The County Prosecuting Attorney determined these monies had to be refunded to the defendant, since the application for forfeiture had not been filed timely.

To ensure all city funds are adequately controlled and properly accounted, all city monies should be deposited to the city treasury.

- E. Access to the city's computer programs and data files is not adequately restricted. Passwords with different levels of access are used, but are not changed on a periodic basis to ensure confidentiality. As a result, there is less assurance that passwords limit access to the accounting data files and programs to those individuals who need access. Passwords should be unique and changed periodically to reduce the possibility of unauthorized users.

To establish individual responsibility, and to preserve the integrity of computer programs and data files, access to information should be limited to only those individuals who need it for completion of job responsibilities.

- F. Property taxes are not properly distributed among the various funds receiving property taxes. The City Collector has not updated the distribution percentages established several years ago, even though the property tax levied for the various funds changed annually. In addition, some current tax revenues were reported as prior years' taxes. The city's CPA reviewed this situation for the current fiscal year and determined the General Fund had been allocated approximately \$27,000 too much. Adjustments were made for the current fiscal year to repay these funds to the Fire and Ambulance Fund and the Hydrant Fund, but the City Clerk was unable to provide documentation that previous years distributions have been corrected.

To ensure each fund is receiving the proper amount of property tax revenue, distribution percentages should be recalculated for the three funds receiving property taxes on an annual basis.

- G. The city deposited approximately \$91,000 of state motor vehicle-related revenues into the General Fund instead of the Street Fund during fiscal year ended June 30, 2003. During our audit, the city adjusted the General Fund balance by this amount to transfer these funds back to the Street Fund. The city's attorney indicated that some of the revenues could be used for police patrolling of the streets, and the Municipal Coordinator determined what amount should be deposited to the General Fund. No documentation was available to support the amount deposited to the General Fund as expended for patrolling the streets.

Article IV, Section 30 of the Missouri Constitution, requires that motor vehicle-related receipts apportioned by the state of Missouri be expended for street-related purposes only, including policing, signing, lighting, and cleaning of roads and streets. The city has not properly deposited these funds to the Street Fund to be

expended for these purposes nor have they monitored the use of these funds to ensure compliance with the Missouri Constitution.

To ensure compliance with the Missouri Constitution, the city should deposit all motor vehicle-related revenues into the Street Fund and ensure these receipts are used only for the purposes allowed by the constitution.

WE RECOMMEND the Board of Aldermen:

- A. Consider segregating the cash handling, record keeping, and depositing functions. If this is impractical, an independent review of the related records and activity should be performed periodically.
- B. Issue prenumbered receipt slips for all monies received, account for the numerical sequence of receipt slips issued, and ensure the method of payment is recorded on all receipt slips and the composition of receipt slips is reconciled to deposits. In addition, voided receipt slips should be properly accounted for.
- C. Deposit receipts daily or when accumulated receipts exceed \$100 and restrictively endorse all checks and money orders immediately upon receipt.
- D. Ensure all accounts are maintained within the city treasury.
- E. Consider formalizing a system of controls and passwords for the computer systems and all significant software and data.
- F. Recalculate property tax allocation percentages annually and determine if allocations in past years were done correctly.
- G. Deposit state motor vehicle-related revenues to the street fund to ensure funds are spent in accordance with the Missouri Constitution. In addition, the board should review past year's distribution of motor vehicle-related revenues and determine if any monies are due from the General Fund to the Street Fund.

AUDITEE'S RESPONSE

- A. *The City Clerk and City Collector have already begun to review each others work and an independent third person will be selected by the Board to review the work of both officials.*
- B, C,
&D. *We agree and have already implemented these recommendations.*
- E. *We agree and will develop a policy regarding access to computer systems, software, and data by January 1, 2004.*

- F. *We agree and will recalculate the distribution for the current tax year and will also correct the prior two years allocations.*
- G. *We agree. This has already been corrected.*

4. Budgets and Financial Reporting

The city's budgets are in need of improvement, budget to actual comparisons for revenues and expenditures are not performed, and annual reports required to be filed by various city officials are not being submitted.

- A. The city's budgets need improvement and are not prepared in accordance with state law. The budgets do not include a budget message, some required information regarding the city's debt, and beginning and ending fund balances. The approved budgets include estimated revenues and expenditures for the coming year only and not the preceding two years actual amounts, as required by law. While deficit budgets were approved for the General Fund and the Sewer Fund in fiscal year 2003, such deficits were caused by the city failing to include the beginning fund balance with the anticipated revenues for comparison to estimated expenditures. Additionally, some funds are not properly budgeted, and the board of alderman, not the park board, prepares budgets for the operations of the municipal parks.

Section 67.010, RSMo 2000, requires each political subdivision of the state to prepare annual budgets with specific information. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost expectations for each area. A complete budget should include appropriate revenue and expenditure estimates by classification, and include the beginning available resources and reasonable estimates of the ending available resources for all funds,. The budget should also include a budget message and information on interest, amortization, or redemption charges on debt.

- B. Budget to actual comparisons are not performed prior to approving expenditures. Our review of the board minutes found no discussion of budgetary concerns prior to the approval of payments of expenditures. In fact, in many instances, expenditures were approved when the board was aware that the General Fund and Sewer Fund had deficit balances. The board has not adequately monitored the financial position of the city by utilizing the budget document as a tool to monitor and control city finances.

Financial reports should identify the city's financial position and any significant changes in the approved budget. Budget to actual comparison should be performed periodically to ensure that budgets are not overspent and funds are available for expenditures.

- C. The City Collector is not filing an annual report of all the city's receipts with the board as required by Section 79.310, RSMo 2000, nor are the other city officials filing annual reports with the board as required by Section 79.340, RSMo 2000. These annual reports are necessary to explain the budget to actual statements of each office and department, and to provide the board with information to prepare the upcoming budget.

WE RECOMMEND the Board of Aldermen:

- A. Ensure complete and accurate budgets are prepared in accordance with state law.
- B. Closely monitor the budget to actual statements presented for the various funds prior to approving expenditures.
- C. Ensure the City Collector and all city officials file all annual reports as required by state law.

AUDITEE'S RESPONSE

- A. *We agree and will ensure that budgets prepared in the future comply with the law.*
- B. *We agree and will implement this recommendation immediately.*
- C. *We agree and will ensure that these reports are filed in the future.*

5. Park Board

Park funds, totaling \$125,698, were transferred to the General Fund without the approval of the Park Board and the Park Board has not prepared an annual report to submit to the Board of Alderman for the past several years.

- A. Park funds were transferred to the General Fund without the approval of the Park Board. In September 2002, the Board of Aldermen authorized a transfer of \$125,698 from the Park Fund to the General Fund. During fiscal years 1999 through 2002, the city transferred approximately \$175,000 from the General Fund to the Park Fund. Due to the financial condition of the General Fund, the Board of Aldermen wanted to transfer a portion of these funds back to the General Fund during fiscal year 2003. The city's attorney provided a written opinion that the city could transfer monies from the restricted fund because the money originally came from the General Fund and the Park Board is only an advisory board. Per our review of the ordinance establishing the Park Board, it appears this board is an administrative board, with exclusive control of the expenditures of all money collected to the credit of the Park Fund. A review of the minutes of Park Board meetings showed no documentation of the approval of this transfer. Because these funds were transferred without the approval of the Park Board and were

previously received by the Park Fund, it appears questionable that the Board of Alderman had the authority to transfer these funds or whether they should have been transferred at all.

City ordinance 1.210, establishes the park board under Section 90.550, RSMo, which states the park board has exclusive control over the expenditure of all park funds. Monies received by a restricted fund become restricted at the time they are received. The transfers made from the General Fund to the Park Fund in past years represent restricted revenue of the Park Fund, and therefore can only be expended for park related purposes. The transfer of \$125,698 to the General Fund does not appear to be related to the parks and therefore appears questionable. The Board of Alderman should consider transferring these funds back to the Park Fund.

- B. The Park Board has not completed an annual report of operations for the past several years for submission to the Board of Alderman, as required by city ordinance and state law. This annual report should state the condition of the Park Fund, the various sums of money received and their sources, the sums of money expended and the purpose, and a proposed budget for the coming year. Additional report information would include improvement recommendations, planned use programs, and such other statistics, information and suggestions as the Board may deem to be of general interest. In addition, the park board has not adopted by-laws to govern their operations, as required by state law.

Section 90.560, RSMo 2000, requires an annual report to the city on or before the second Monday in June. Section 90.550, RSMo 2000, requires the park board to adopt bylaws to govern themselves. The Park Board has not complied with these statutes by completing the report and submitting it to the Board of Alderman and adopting by-laws.

WE RECOMMEND that the Board of Aldermen:

- A. Consider transferring \$125,698 from the General Fund to the Park Fund.
- B. Ensure the Park Board completes its annual reports and adopts by-laws, as required by state law.

AUDITEE'S RESPONSE

- A. *We will take under consideration the auditor's recommendations and investigate ways to resolve their concerns.*
- B. *We will ask the Park Board to implement this recommendation by April 1, 2004.*

A formal bidding policy was not adopted until November 2002, expenditures requiring advance board approval were not always approved, and several expenditures did not appear to be prudent uses of public funds. In addition, supporting documentation was not available for some expenditures and the city financed several loans for periods of more than 12 months without a vote of the people.

- A. The Board of Alderman did not have a formal bidding policy prior to November 2002. As a result, the decision of whether to solicit bids or proposals for a particular purchase was made on an item-by-item basis. During our audit period, bids were either not solicited or supporting documentation was not retained for on-call utility repair services (\$12,232) or for park lighting and installation (\$21,692) in recent years. In addition, written contracts are not entered into for all services obtained, including the examples mentioned above.

Formal bidding procedures for major purchases provide a framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding helps ensure all parties are given an opportunity to participate in the city's business. Bids/proposals can be handled by telephone quotation, by written quotation, by sealed bid, or by advertised sealed bid. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids/proposals received and reasons noted why the bid/proposal was selected.

Section 432.070, RSMo 2000, requires contracts for political subdivisions to be in writing. The city should enter into written contracts for services rendered or obtained. A written contract, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to provide protection to both parties.

- B. Disbursements exceeding the spending authority of the Municipal Coordinator and City Clerk were made without invoices being reviewed and approved by the Board of Alderman, as required by ordinance. The city purchasing policy authorizes the Municipal Coordinator and City Clerk to purchase supplies up to \$500 and capital improvement items up to \$1,000 without prior board approval, if the purchase is authorized in the budget. For 11 expenditures reviewed in excess of the policy limits, none of them had prior board approval. Prior to March 2003, a listing of paid invoices was prepared for the board to review and approve, although many of these invoices exceeded the spending authority of city personnel and should not have been made until the board approved. Invoices were supplied to alderman for their review only upon request. In addition, this listing of paid invoices was not retained with the minutes.

To adequately document the board's review and approval of all disbursements, a complete and detailed listing of invoices should be prepared, signed or initialed by the alderman to denote their approval, and retained with the official minutes. In addition, supporting documentation should be reviewed by the Board of Alderman before payment is made to ensure all disbursements represent valid operating costs of the city, are within budget, and funds are available for payment. Expenditures should not be approved after payment has been made.

C. The following expenditures do not appear to be prudent uses of public funds:

1. Approximately \$1,500 for the Police Chief's personal cell phone bill during fiscal year 2003, while also providing a city issued cell phone to the Police Chief.
2. Approximately \$200 was spent in December 2002 for the city employee appreciation dinner.
3. Approximately \$600 per year for a chaplain to give a blessing at one city council meeting per month, at \$50 per meeting.

The city's residents place a fiduciary trust in their public officials to expend public funds in a necessary and prudent manner. The above expenses do not appear to represent a necessary and prudent use of public funds.

D. Supporting documentation was not available for some expenditures. Adequate supporting documentation was not available for 8 of 50 expenditures reviewed, including work done on the city park, at a cost of approximately \$50,000, and a public works project totaling approximately \$40,000. All expenditures should be supported by a vendor invoice to ensure the obligation was actually incurred and the expenditure represents an appropriate use of public funds.

E. The city entered into financing agreements for the purchase of two vehicles, indebting the city's taxpayers for terms greater than one year. A Chevrolet Tahoe SUV costing approximately \$33,000 was purchased for the Police Chief as a personally assigned vehicle and a one-ton truck, costing approximately \$25,000, was purchased for the Public Works Department. These vehicles were purchased using financing instruments with terms of five and four years. The city was unable to support how these financing agreements were done in accordance with state law. It appears the city may have entered into these financing agreements due to the fact that the General Fund cash balance was low or negative.

Financing contracts, absent a cancellation clause, obligate the city for future periods. This appears to violate the intent of the Missouri Constitution on legal indebtedness absent a vote of city taxpayers. Article VI, Section 26(a), of the Missouri Constitution states that no city shall become indebted in an amount exceeding in any year the income and revenue provided for such year plus any unencumbered balances from previous years, except as otherwise provided in the

Constitution. Article VI, Section 26(c), of the Missouri Constitution allows cities to incur debt by bond issue only after approval of two-thirds of the qualified electors voting thereon.

WE RECOMMEND the Board of Aldermen:

- A. Follow city purchasing policy ordinances by obtaining bids, proposals or quotes for significant purchases, and support these actions by including documentation regarding the bids or quotes received and justification for the bid selected. Enter into a contract with all vendors for goods and services as required by ordinance.
- B. Review and approve the expenditure of city funds prior to the disbursements being made. In addition, the approval of disbursements should be adequately documented by including a listing of all approved disbursements in the board minutes.
- C. Ensure all expenditures from city monies are a prudent use of public funds.
- D. Ensure that all expenditures are appropriately supported by adequate documentation.
- E. Not incur debt in violation of the constitution.

AUDITEE'S RESPONSE

- A. *We have a bidding policy in place. However, in the event of emergencies such as disasters, we may not be able to solicit bids, but will document this in our minutes, if this occurs.*
- B. *We agree and will begin doing this immediately.*
- C. *We agree and will take this recommendation under advisement.*
- D. *We agree and will ensure adequate documentation is maintained for all expenditures in the future.*
- E. *We agree and will avoid doing this in the future.*

7. Municipal Court

Duties are not adequately segregated and a review of the Court Clerk's work is not performed, accounting control problems were noted, court records are not always adequately safeguarded, and adequate documentation for void tickets is not maintained.

- A. The duties of receiving, recording, and depositing court receipts are not adequately segregated. Currently, the Court Clerk performs all these duties. To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receiving and depositing court monies from recording receipts. If proper segregation of duties cannot be achieved, at a minimum, there should be a documented supervisory review of the reconciliation between receipts and deposits.
- B. The municipal court accepts cash, checks, and money orders for fines and court costs. Although the receipt slips indicate the method of payment received, the composition of receipt slips is not reconciled to deposits. To ensure receipts are deposited intact, the composition of receipt slips issued should be reconciled with the composition of monies deposited.
- C. The Court Clerk does not maintain a bond ledger and does not prepare an open items (liabilities) listing and reconcile it to the bank balance monthly. At December 31, 2002, the balance in the bond account was \$1,300, of which only \$1,000 could be identified.

The court should establish a bond ledger indicating the related case, date and amount of receipt, and date of disbursement to ensure proper accountability of bond collections. A monthly listing of open items is necessary to ensure accountability over open cases and to ensure monies held in trust by the municipal division are sufficient to meet liabilities. In addition, an attempt should be made to determine the proper disposition of these excess monies. For those monies which remain unclaimed, Section 447.595, RSMo 2000, requires funds remaining unclaimed for one year after disposition of the case to be turned over to the state's Unclaimed Property Section.

- D. Court records are not being adequately safeguarded. The file cabinets in the clerk's office have locks, but the key is missing, so the cabinets are not locked. The balance of the records are kept in cardboard boxes in the furnace/storage room downstairs in the city hall that cannot be locked. Also, blank receipt books are not securely kept in locked areas such as a file cabinet or desk drawer. To decrease the risk of loss, theft, or misuse, all court records should be maintained in locked cabinets and not accessible to the general public.
- E. The Chief of Police voided some tickets without maintaining an affidavit documenting the reason for this action and did not maintain all copies of some voided tickets. The Police Department issues an average of 125 Uniform Traffic Tickets (UTT) monthly. Each ticket has five copies, one for the defendant, one for the officer, and three court copies. Of the 38 UTTs voided during the period December 11, 2001 to April 6, 2002, 24 were not supported by an affidavit documenting the reason for voiding the ticket. In addition, for 19 of the 38

voided tickets we reviewed, all five copies of the ticket were not on hand. The defendant had signed the ticket for 18 of these 19 tickets, and 14 of these were missing the defendant's copy of the ticket, indicating the ticket was voided after it was issued.

To ensure the proper disposition of tickets issued by the Police Department, supporting documentation to evidence the reason for voiding a ticket, and all copies of voided tickets, should be maintained.

WE RECOMMEND the municipal court:

- A. Adequately segregate the duties of receiving, recording, and depositing court receipts. At a minimum, there should be a documented supervisory review of the reconciliation between receipts and deposits.
- B. Reconcile the composition of receipt slips to the composition of deposits.
- C. Prepare monthly listings of open items and reconcile to the cash balance. Differences between open items and cash balances should be investigated and resolved.
- D. Safeguard all court records by keeping them in a secure area.
- E. Ensure all voided tickets are accounted for properly by maintaining an affidavit for the reason being voided and all copies of the ticket.

AUDITEE'S RESPONSE

The board responded:

A&B. We agree and have implemented these recommendations.

C, D,

&E. We agree and will discuss these issues with the judge.

The Municipal Judge responded:

The city prosecutor will be the only individual that will 'void' uniform traffic summons and he will develop criteria for the justification of each such action. A log will be maintained to facilitate the tracking of all new and used uniform traffic summons. A copy of that log will be supplied to the court by the police department for verification and will be maintained in the court's files. All municipal court records will be secured in a locked area and restricted access will be maintained at all times.

Further, procedural policies have been implemented to require verification between the clerk and deputy clerk of all financial accounting and banking deposits with reconciliation occurring

routinely. The municipal judge will oversee that these practices are strictly adhered to and will sign off on a monthly accounting ledger summary detailing all transactions of the court's prior months activities.

8. Conflict of Interest

The Board of Aldermen apparently violated city ordinance by investing \$11,000 with a local investment firm, who employed one of the former aldermen. While the board minutes indicate that he voted for investing funds with this firm, the monthly investment reports for June 2001 through December 2001 listed the former alderman as the representative for this account. The former alderman indicated he received no personal financial gain from the city's investment account. This action appears to represent a conflict of interest.

City ordinance prohibits city officers and employees from engaging in any transactions with a business entity in which they are an officer, agent or member. Discussions and decisions concerning transactions where a potential conflict of interest exists should be completely documented so that the public has assurance that no city official or agent has profited improperly.

WE RECOMMEND the Board of Aldermen avoid apparent conflicts of interest. Also, in the future, if a board member is considered to provide services for the city, that member should abstain from voting on the purchase and that action should be adequately documented in the board minutes.

AUDITEE'S RESPONSE

We agree and will avoid these type of transactions in the future.

9. Board Meetings, Minutes, and Ordinances

Procedures for holding and documenting both closed and open session board meetings are in need of improvement and a policy had not been established for accessing public records. In addition, the combining of the position of Municipal Coordinator and Police Chief appears to violate state law, and compensation, terms of office, and duties have not been established for some employees by ordinance, as required.

- A. The board regularly conducts closed meetings. Minutes were not prepared to document the matters discussed in closed meetings, and board minutes did not always indicate the specific reasons for closing the meetings. Typically, the agenda and minutes would make a general reference to a closed session related to litigation, real estate transactions, and personnel issues, but would not list which issues would be discussed at the proposed meeting.

Section 610.020, RSMo 2000, allows the board to close meetings to the extent the meetings relate to certain specified subjects, including litigation, real estate transactions, and personnel issues. Section 610.022, RSMo 2000, requires a record or vote be held for the specific reasons announced publicly at an open session. This law provides that public governmental bodies shall not discuss other business during the closed meeting that differs from the specific reasons used to justify such meeting, record, or vote.

Without the preparation of closed minutes, there is less evidence that the provisions of the Sunshine Law, Chapter 610, RSMo 2000, regarding these closed meetings, have been followed.

- B. The board minutes do not always include sufficient detail of matters discussed and actions taken. For example, the board minutes did not include sufficient detail regarding the discussion and vote on ordinances or the appointment of the City Engineer to the Planning and Zoning Commission. Complete and accurate minutes provide an official record of board actions and decisions.
- C. Prior to March 2003, the city had not formally established a policy regarding access to city records. The city recently established written rules for accessing the records and the Board of Aldermen officially adopted these rules during our audit.

Section 610.023, RSMo 1994, indicates that each public governmental body is to appoint a custodian who is to be responsible for the maintenance of that body's records and establishes guidelines for making city records available to the public. To ensure compliance with state law, the city should adopt formal policies regarding the location of city records, the persons responsible for maintaining each record, and procedures for citizens to request access to public records and how the city will handle these requests.

Written policies would establish procedures for the residents to follow and the cost for the requested information. In addition, written policies would help avoid misunderstandings regarding the availability of public city records.

- D. Open meeting minutes are prepared by the City Clerk and signed by the Mayor and the Clerk; however, some meeting minutes were not approved timely by the Board of Aldermen. Occasionally, minutes for as many as four meetings would be approved during a session. For example, during the January 16, 2003 meeting, the minutes for the November 6, 2002, November 25, 2002, and December 9, 2002 meetings were approved and in the March 10, 2003 meeting, the minutes for January 16, 2003, February 5, 2003 and February 10, 2003 were discussed, but only the minutes for the two February meetings were approved.

By not approving minutes on a timely basis, there is less assurance the matters discussed at the board meeting are accurately reflected in the approved minutes. Approving minutes four meetings or more later does not provide a timely and

effective record of the activities of the board to the public. The minutes should be prepared and signed by the City Clerk, approved by the board and signed by the mayor immediately upon approval by the board to provide attestation that the minutes are a correct record of the matters discussed and actions taken during the board meetings.

- E. The combination of the positions of Municipal Coordinator and Chief of Police appears to violate state law. These two positions were combined in 1997, and internal memos and board meeting minutes reviewed referred to the municipal coordinator position as the city administrator. The job description for the city's municipal coordinator position appears to be very similar to that of a city administrator and the responsibilities assumed by the municipal coordinator appear to be that of an administrator.

Section 77.044, RSMo 2000, states that a city administrator shall devote his full time to the performance of the duties of his office. Statutes require the city administrator's position to be full time and therefore would prohibit this combination of positions.

- F. Compensation, terms of office, and duties for all appointed officials have not been established by ordinance as required by state law. The municipal coordinator provided job descriptions for all city employees, but the duties of appointed officials varied from or conflicted with those which had been established by ordinance or the duties as required by statute. In addition, the compensation of all other city employees is not established by ordinance.

Sections 79.270 through 79.320, RSMo 1994, require that duties, powers, compensation, and the term of office of city officials and employees be established by ordinance. Also, compensation rates set by ordinance, in addition to meeting statutory requirements, document the approved amounts to be paid and reduce potential misunderstandings regarding the amount of pay each city official and employee is to receive. In addition, ordinance hearings provide for public input and information concerning the salaries and benefits paid.

WE RECOMMEND the Board of Aldermen:

- A. Ensure minutes are prepared for all closed meetings and the specific reasons for going into closed session are stated in the minutes and on the agenda.
- B. Ensure all significant discussions, actions taken, and information required by state law are included in the minutes.
- C. Develop written policies regarding procedures to obtain access to, or copies of, public city records.

- D. Ensure minutes are approved for all meetings timely in order to attest to the accuracy and completeness of the minutes.
- E. Consider separating the Municipal Coordinator and Chief of Police positions.
- F. Establish by ordinance the salaries or pay rates, duties and applicable terms of office for all officials and employees.

AUDITEE'S RESPONSE

- A. *We agree and will ensure minutes are prepared for closed meetings and specific reasons for going into closed sessions are properly disclosed in the future.*
- B. *We agree and will ensure meeting minutes are more detailed in the future.*
- C. *We agree and have already implemented this recommendation.*
- D. *We agree and will ensure these are approved more timely in the future.*
- E. *We agree. The position of municipal coordinator has been eliminated.*
- F. *We agree and will correct this matter by April 1, 2004.*

10.	Planning and Zoning
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The city does not have a comprehensive city plan and does not follow its own ordinance for the establishment of the Planning and Zoning Commission.

- A. The city does not have a comprehensive city plan that would allow the Board of Aldermen to adequately plan or budget for community development and expansion, utility upgrades, street repairs, and maintenance. A comprehensive plan gives the physical development of a municipality to the extent shown by maps, plats, charts, and descriptions and explanations of the commissions' recommendation for the uses of land for present and future uses and the repair, replacement and maintenance of existing infrastructure.

Section 89.340, RSMo 2000, states that the plan may include streets and other public byways, public and privately owned lands, utilities, blighted areas for redevelopment and proposed developments, replacement of streets, annexations and other such changes to the nature and character of the area incorporated in the municipality. A comprehensive city plan would enable the city to plan and prepare for future capital expenditures, prepare effective and useful budgets, as well as plan for capital financing.

- B. The city has not followed its ordinances for the establishment of the Planning and Zoning Commission. The City Engineer sat on the board instead of the city's building inspector. City ordinance states that the mayor, one alderman, and the city's building inspector are to be the members of the Planning and Zoning Commission, with the balance of the board to be made up of six appointed citizens.

The City Clerk found no evidence that the city engineer was appointed to the board and could not be a citizen board member since he is not a resident of the city. The Municipal Coordinator and the city engineer stated that the prior city attorney indicated that the City Engineer, being the highest-level public works official, should sit on the board. We found no documentation to support this.

To ensure planning and zoning issues are dealt with properly and in accordance with state law, the board should take steps to ensure the proper individuals serve on the board in the future.

WE RECOMMEND the Board of Aldermen:

- A. Ensure the Planning and Zoning Commission prepare and adopt a comprehensive city plan to adequately plan and budget the city's resources.
- B. Follow the city's ordinances and ensure the building inspector is a member of the planning and zoning commission and that all citizen members are residents of the city.

AUDITEE'S RESPONSE

- A. *We agree and we will ensure a plan is developed by April, 2005.*
- B. *We agree and we will review the make up of the board and take action by February 1, 2004.*

11. Street Maintenance Plan

An annual maintenance plan for city streets has not been prepared. A formal maintenance plan should be prepared in conjunction with the annual fiscal budget and include a description of the streets to be worked on, the type of work to be performed, an estimate of the quantity and cost of materials needed, the dates such work could begin, the amount of labor required to perform the work, and other relevant information. The plan should be included in the budget message and be approved by the board. In addition, a public hearing should be held to obtain input from the city residents.

A formal maintenance plan would serve as a useful management tool and provide greater input into the overall budgeting process. Such a plan provides a means to continually and

more effectively monitor and evaluate the progress made in the repair and maintenance of streets throughout the year.

WE RECOMMEND the Board of Aldermen prepare a formal maintenance plan for city streets at the beginning of the fiscal year and periodically update the plan throughout the year. In addition, the board should review the progress made in the repair and maintenance of streets to make appropriate decisions on future projects.

AUDITEE'S RESPONSE

We agree and are already working on this. We plan to have it done by the end of the fiscal year.

12. Fixed Assets

Fixed asset records are in need of improvement and vehicle usage is not adequately monitored.

- A. The city has not prepared and maintained permanent, detailed property records for general fixed assets, including the cost of land, buildings, equipment, and furniture owned by the city, or for the sewer system. In addition, some assets have not been properly tagged with property tags and annual physical inventories are not performed.

Property records for general fixed assets are necessary to ensure accountability for all items purchased and owned and for determining the proper amount of insurance coverage. To develop appropriate records and procedures for general fixed assets and the fixed assets of the sewer system, the city needs to undertake a comprehensive review of all property owned by the city. Assets should be counted, tagged for specific identification, and recorded by description and serial number in a detailed property ledger at historical cost or estimated historical cost if the original cost is not available. The city should properly record all fixed asset transactions, and ensure the accuracy of the recorded fixed assets. Periodically, the city should take physical counts of its assets and compare to the detailed records.

- B. The city does not monitor its vehicle usage or keep logs to support business versus personal use. The city has five vehicles assigned to the police department and five vehicles assigned to the public works department. Both departments maintain maintenance and repair logs, but neither maintains usage logs on all vehicles, which show daily usage and fuel purchases. The board does not review the records which are maintained, and since no usage or fuel logs are kept, a reconciliation of gasoline purchases to gasoline usage cannot be performed and personal use of these vehicles could go undetected. At least two employees, the Police Chief and public works Superintendent, were assigned take-home vehicles, but no personal use was reported for federal tax purposes.

Logs are necessary to document appropriate use of the vehicles and to support gasoline charges. The logs should include the purpose and destination of each trip, the daily beginning and ending odometer readings, as well as the operation and maintenance costs. These logs should be reviewed to ensure the vehicles are being properly utilized, and help identify vehicles which should be replaced. Information on the logs should be reconciled to fuel purchases and other maintenance charges. Personal use should be reported for tax purposes when required.

WE RECOMMEND the Board of Aldermen:

- A. Maintain property records for general fixed assets and the fixed assets of the sewer system that include all pertinent information for each asset, such as tag number, description, cost, acquisition date, location, and subsequent disposition. In addition, annual physical inventories should be performed.
- B. Maintain complete and accurate logs reporting mileage, usage, and maintenance for each vehicle. A supervisor should review the logs periodically for completeness and reasonableness and ensure all personal use is properly reported.

AUDITEE'S RESPONSE

- A. *We will attempt to develop appropriate fixed asset records, which include all pertinent information, by July 1, 2004. We will begin to perform annual inventories of all assets during the current fiscal year.*
- B. *We do maintain some information regarding vehicle usage now, but agree that this information would be more useful if it were accumulated in a vehicle log. We plan to implement this recommendation by January 1, 2004 and will ensure these logs are reviewed periodically.*

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

CITY OF GREENWOOD, MISSOURI
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The city of Greenwood is located in Jackson County. The city was incorporated in 1963 and is a fourth-class city. The population of the city in 2000 was 3,952.

The city government consists of a mayor and four-member board of aldermen. The members are elected for two-year terms. The mayor is elected for a two-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other principal officials at June 30, 2002 were:

Elected Officials	Term Expires	Compensation Paid for the Year Ended June 30, 2002	Amount of Bond
D. Kevin Adey, Mayor	April 2004	\$ 600	\$ 50,000
Mark Pearson, Alderman (1)	April 2003	1,200	50,000
Sharon Hutinett, Alderwoman	April 2004	1,200	50,000
Joe O'Daniels, Alderman (2)	April 2003	800	50,000
Bill Regan, Alderman (3)	April 2003	1,200	50,000
 <u>Other Principal Officials</u>			
Kim Arth, City Clerk		31,218	\$ 50,000
Kendra Laudenslager, City Collector (4)		27,105	50,000
Harry Gurin, Chief of Police/Municipal Coordinator (5)		61,485	50,000
Travis Kiefer, City Engineer (6)		63,000	
Steven Mauer, City Attorney (7)		6,500	
Jerry Rellihan, City Prosecutor		8,400	
Hugh Ryan, Municipal Judge		5,400	

- (1) Tony Nunn was elected in April 2003.
- (2) Resigned in October 2002 and replaced by Victor Robles in November 2002. Mark Dziedzic was elected in April 2003.
- (3) Neil Kounkel was elected in April 2003.
- (4) Resigned in August 2003 and replaced by Cynthia Inman in September 2003.
- (5) Municipal Coordinator position was eliminated in June 2003.
- (6) Full-time City Engineer position was eliminated in May 2003. This position will be filled on an "as needed" basis.
- (7) Compensation paid to the attorney's law firm.

In addition to the officials identified above, the city employed 9 full-time employees on June 30, 2002.

Assessed valuations and tax rates for year 2002 were as follows:

ASSESSED VALUATION

Real estate	\$ 31,921,962
Personal property	<u>9,279,131</u>
Total	<u><u>\$ 41,201,093</u></u>

	<u>Rate</u>
General Fund	\$ 0.48
Fire & Ambulance Protection	0.65
Fire Hydrant Inspection & Maintenance	0.02

The city has the following sales taxes; the rates are per \$1 of retail sales:

	<u>Rate</u>	<u>Expiration Date</u>
General	0.01	None
Transportation	0.005	None
Local Parks	0.005	10/01/06